

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
July 18, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: **July 18, 2012**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES
CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

1-2360
(Commission File Number)

13-0871985
(IRS employer Identification No.)

ARMONK, NEW YORK
(Address of principal executive offices)

10504
(Zip Code)

914-499-1900

(Registrant's telephone number)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated July 18, 2012, regarding its financial results for the periods ended June 30, 2012, including consolidated financial statements for the periods ended June 30, 2012, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's second quarter earnings presentation on July 18, 2012, as well as certain reconciliation and other information (Non-GAAP Supplemental Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Loughridge's presentation. All of the information in Attachment I and II is hereby filed.

IBM's web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: July 18, 2012

By:

/s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2012 SECOND-QUARTER RESULTS

- Diluted EPS:
- GAAP: \$3.34, up 11 percent;
- Operating (non-GAAP): \$3.51, up 14 percent;
- Net income:
- GAAP: \$3.9 billion, up 6 percent;
- Operating (non-GAAP): \$4.1 billion, up 8 percent;
- Gross profit margin:
- GAAP: 47.6 percent, up 1.2 points;
- Operating (non-GAAP): 48.2 percent, up 1.5 points;
- Revenue: \$25.8 billion, down 3 percent, up 1 percent adjusting for currency;
- Free cash flow of \$3.7 billion, up 9 percent;
- Software revenue, flat, up 4 percent adjusting for currency;
- Services revenue down 3 percent, up 1 percent adjusting for currency:
- Services pre-tax income up 18 percent;
- Services backlog of \$136 billion, down 6 percent, flat adjusting for currency;
- Systems and Technology revenue down 9 percent, down 7 percent adjusting for currency;
- Growth markets revenue up 2 percent, up 8 percent adjusting for currency;
- Business analytics revenue up 13 percent in the first half;
- Smarter Planet revenue up more than 20 percent in the first half;
- Cloud revenue doubled first-half 2011 revenue;
- Full-year 2012 operating (non-GAAP) EPS expectations raised to at least \$15.10 from at least \$15.00.

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ARMONK, N.Y., July 18, 2012 . . . IBM (NYSE: IBM) today announced second-quarter 2012 diluted earnings of \$3.34 per share, compared with diluted earnings of \$3.00 per share in the second quarter of 2011, an increase of 11 percent. Operating (non-GAAP) diluted earnings were \$3.51 per share, compared with operating diluted earnings of \$3.09 per share in the second quarter of 2011, an increase of 14 percent.

Second-quarter net income was \$3.9 billion compared with \$3.7 billion in the second quarter of 2011, an increase of 6 percent. Operating (non-GAAP) net income was \$4.1 billion compared with \$3.8 billion in the second quarter of 2011, an increase of 8 percent.

Total revenues for the second quarter of 2012 of \$25.8 billion were down 3 percent (up 1 percent, adjusting for currency) from the second quarter of 2011. Currency negatively impacted revenue growth by approximately \$1 billion.

In the second quarter, we delivered strong profit, earnings per share and free cash flow growth. This performance reflects continued strength in our growth initiatives and investments in higher value opportunities, said Ginni Rometty, IBM president and chief executive officer. These are fundamental elements of our long-term business model.

Looking ahead, we are well positioned to deliver greater value to a wider range of clients and to our shareholders. Given our performance in the first half and our outlook for the second half, we are raising our full-year operating earnings per share expectations to at least \$15.10.

Second-Quarter GAAP Operating (non-GAAP) Reconciliation

Second-quarter operating (non-GAAP) diluted earnings exclude \$0.17 per share of charges: \$0.11 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.06 per share for retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Full-Year 2012 Expectations

IBM raised its expectations for full-year 2012 GAAP diluted earnings per share to at least \$14.40 from at least \$14.27 and operating (non-GAAP) diluted earnings per share to at least \$15.10 from at least \$15.00. The 2012 operating (non-GAAP) earnings expectations exclude \$0.70 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Geographic Regions

The Americas second-quarter revenues were \$11.1 billion, a decrease of 1 percent (up 1 percent, adjusting for currency) from the 2011 period. Revenues from Europe/Middle East/Africa were \$7.9 billion, down 9 percent (flat, adjusting for currency). Asia-Pacific revenues increased 2 percent (up 4 percent, adjusting for currency) to \$6.3 billion. OEM revenues were \$512 million, down 24 percent compared with the 2011 second quarter.

Growth Markets

Revenues from the company's growth markets increased 2 percent (up 8 percent, adjusting for currency) and more than 30 countries had double-digit revenue growth, adjusting for currency. Revenues in the BRIC countries - Brazil, Russia, India and China - increased 5 percent (up 12 percent, adjusting for currency).

Services

Global Technology Services segment revenues decreased 2 percent (up 2 percent, adjusting for currency) to \$10.0 billion. Global Business Services segment revenues were down 4 percent (down 1 percent, adjusting for currency) to \$4.7 billion.

Pre-tax income from Global Technology Services increased 24 percent and pre-tax margin increased to 17.1 percent. Global Business Services pre-tax income increased 7 percent and pre-tax margin increased to 16.6 percent.

The estimated services backlog at June 30 was \$136 billion, down 6 percent year over year at actual rates (flat, adjusting for currency).

Software

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Revenues from the Software segment were \$6.2 billion, flat (up 4 percent, adjusting for currency) compared with the second quarter of 2011. Software pre-tax income increased 8 percent and pre-tax margin increased to 35.9 percent.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.9 billion, flat (up 4 percent, adjusting for currency) versus the second quarter of 2011. Operating systems revenues of \$628 million were flat (up 3 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 3 percent year over year. Information Management software revenues decreased 1 percent. Revenues from Tivoli software increased 2 percent. Revenues from Lotus software decreased 8 percent, and Rational software decreased 7 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$4.3 billion for the quarter, down 9 percent (down 7 percent, adjusting for currency) from the second quarter of 2011. Systems and Technology pre-tax income decreased \$159 million.

Total systems revenues decreased 7 percent (down 5 percent, adjusting for currency). Revenues from Power Systems were down 7 percent compared with the 2011 period. Revenues from System x were down 8 percent. Revenues from System z mainframe server products decreased 11 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 8 percent. Revenues from System Storage decreased 4 percent, and revenues from Retail Store Solutions decreased 4 percent year over year. Revenues from Microelectronics OEM decreased 22 percent.

Financing

Global Financing segment revenues were flat (up 4 percent, adjusting for currency) in the second quarter at \$517 million. Pre-tax income for the segment increased 6 percent to \$528 million.

The company's total gross profit margin was 47.6 percent in the 2012 second quarter compared with 46.4 percent in the 2011 second-quarter period. Total operating (non-GAAP) gross profit margin was 48.2 percent in the 2012 second quarter compared with 46.8 percent in the 2011 second-quarter period, with increases in Global Technology Services and Global Business Services.

Total expense and other income decreased 5 percent to \$7.1 billion compared with the prior-year period. S,G&A expense of \$5.8 billion decreased 3 percent year over year. R,D&E expense of \$1.6 billion increased 1 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$289 million compared with \$295 million a year ago. Other (income) and expense was income of \$132 million compared with prior-year expense of \$97 million. Interest expense increased to \$117 million compared with \$97 million in the prior year.

Total operating (non-GAAP) expense and other income decreased 6 percent to \$7.0 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.7 billion decreased 4 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.6 billion was flat compared with the year-ago period.

Pre-tax income increased 6 percent to \$5.2 billion and pre-tax margin of 20.0 percent, up 1.7 points compared with the prior-year period. Operating (non-GAAP) pre-tax income increased 8 percent to \$5.4 billion and pre-tax margin was 21.1 percent, up 2.2 points.

IBM's tax rate was 24.8 percent, down 0.2 points year over year; operating (non-GAAP) tax rate was 25.0 percent, flat compared to the year-ago period.

Net income margin increased 1.3 points to 15.1 percent. Total operating (non-GAAP) net income margin increased 1.6 points to 15.8 percent.

The weighted-average number of diluted common shares outstanding in the second-quarter 2012 was 1.16 billion compared with 1.22 billion shares in the same period of 2011. As of June 30, 2012, there were 1.14 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$32.4 billion, compared with \$31.3 billion at year-end 2011. From a management segment view, Global Financing debt totaled \$22.6 billion versus \$23.3 billion at year-end 2011, resulting in a debt-to-equity ratio of 7.0 to 1. Non-global

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financing debt totaled \$9.8 billion, an increase of \$1.8 billion since year-end 2011, resulting in a debt-to-capitalization ratio of 36.1 percent from 32.0 percent.

IBM ended the second-quarter 2012 with \$11.2 billion of cash on hand and generated free cash flow of \$3.7 billion, excluding Global Financing receivables, up approximately \$0.3 billion year over year. The company returned \$4.0 billion to shareholders through \$1.0 billion in dividends and \$3.0 billion of share repurchases.

Year-To-Date 2012 Results

Net income for the six months ended June 30, 2012 was \$6.9 billion compared with \$6.5 billion in the year-ago period, an increase of 6 percent. Diluted earnings per share were \$5.95 compared with \$5.30 per diluted share for the 2011 period, an increase of 12 percent. Revenues for the six-month period totaled \$50.5 billion, a decrease of 2 percent (up 1 percent, adjusting for currency) compared with \$51.3 billion for the six months of 2011.

Operating (non-GAAP) net income for the six months ended June 30, 2012 was \$7.3 billion compared with \$6.8 billion in the year-ago period, an increase of 9 percent. Operating (non-GAAP) diluted earnings per share were \$6.29 compared with \$5.50 per diluted share for the 2011 period, an increase of 14 percent.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties

and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and corporate IT spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; risks from investing in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results and purchases, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company's ability to successfully manage acquisitions and alliances; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Q, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated therein by reference. Any forward-looking statement in this release speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements.

Presentation of Information in this Press Release

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

IBM results and expectations

- presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- presenting non-global financing debt-to-capitalization ratio;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency).

The rationale for management's use of non-GAAP measures is included as part of the supplemental materials presented within the second-quarter earnings materials. These materials are available on the IBM investor relations Web site at www.ibm.com/investor and are being included in Attachment II (Non-GAAP Supplemental Materials) to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EDT, today. The Webcast may be viewed at www.ibm.com/investor/2q12. Presentation charts will be available on the Web site shortly before the Webcast.

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Financial Results Below (certain amounts may not add due to use of rounded numbers; percentages presented are calculated from the underlying whole-dollar amounts).

INTERNATIONAL BUSINESS MACHINES CORPORATION

COMPARATIVE FINANCIAL RESULTS

(Unaudited; Dollars in millions except per share amounts)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Percent Change	2012	2011	Percent Change
REVENUE						
Global Technology Services	\$ 9,995	\$ 10,241	-2.4%	\$ 20,031	\$ 20,104	-0.4%
Gross profit margin	36.3%	34.0%		35.8%	33.9%	
Global Business Services	4,667	4,866	-4.1%	9,304	9,575	-2.8%
Gross profit margin	30.7%	28.9%		29.4%	28.2%	
Software	6,171	6,169	0.0%	11,770	11,478	2.5%
Gross profit margin	88.4%	88.4%		87.7%	87.8%	
Systems and Technology	4,259	4,681	-9.0%	8,008	8,700	-7.9%
Gross profit margin	38.3%	40.6%		36.4%	39.3%	
Global Financing	517	519	-0.4%	1,006	1,035	-2.8%
Gross profit margin	46.0%	48.7%		48.3%	51.1%	
Other	175	191	-8.4%	336	381	-11.7%
Gross profit margin	-60.0%	-57.7%		-67.1%	-75.5%	
TOTAL REVENUE	25,783	26,666	-3.3%	50,456	51,273	-1.6%
GROSS PROFIT	12,281	12,385	-0.8%	23,400	23,243	0.7%
Gross margin	47.6%	46.4%		46.4%	45.3%	
EXPENSE AND OTHER INCOME						
S,G&A	5,837	6,030	-3.2%	11,723	11,856	-1.1%
Expense to revenue	22.6%	22.6%		23.2%	23.1%	
R,D&E	1,587	1,569	1.1%	3,188	3,156	1.0%
Expense to revenue	6.2%	5.9%		6.3%	6.2%	
Intellectual property and custom development income	(289)	(295)	-1.8%	(545)	(557)	-2.2%
Other (income) and expense	(132)	97	NM	(190)	(105)	80.9%
Interest expense	117	97	20.4%	226	190	19.1%
TOTAL EXPENSE AND OTHER INCOME	7,120	7,500	-5.1%	14,403	14,541	-0.9%
Expense to revenue	27.6%	28.1%		28.5%	28.4%	
INCOME BEFORE INCOME TAXES						
Pre-tax margin	20.0%	18.3%		17.8%	17.0%	

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Provision for income taxes	1,280	1,221	4.8%	2,049	2,175	-5.8%
Effective tax rate	24.8%	25.0%		22.8%	25.0%	
NET INCOME	\$ 3,881	\$ 3,664	5.9%	\$ 6,948	\$ 6,526	6.5%
Net income margin	15.1%	13.7%		13.8%	12.7%	
EARNINGS PER SHARE OF COMMON STOCK:						
ASSUMING DILUTION	\$ 3.34	\$ 3.00	11.3%	\$ 5.95	\$ 5.30	12.3%
BASIC	\$ 3.38	\$ 3.04	11.2%	\$ 6.02	\$ 5.38	11.9%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUT- STANDING (M s):						
ASSUMING DILUTION	1,161.9	1,221.4		1,168.1	1,230.7	
BASIC	1,149.0	1,204.8		1,154.1	1,213.5	

NM Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in Millions)	At June 30, 2012	At December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 10,864	\$ 11,922
Marketable securities	323	
Notes and accounts receivable - trade (net of allowances of \$264 in 2012 and \$256 in 2011)	10,172	11,179
Short-term financing receivables (net of allowances of \$271 in 2012 and \$311 in 2011)	14,982	16,901
Other accounts receivable (net of allowances of \$11 in 2012 and \$11 in 2011)	1,703	1,481
Inventories, at lower of average cost or market:		
Finished goods	752	589
Work in process and raw materials	2,006	2,007
Total inventories	2,758	2,595
Deferred taxes	1,478	1,601
Prepaid expenses and other current assets	5,113	5,249
Total Current Assets	47,392	50,928
Property, plant and equipment	40,158	40,124
Less: Accumulated depreciation	26,293	26,241
Property, plant and equipment - net	13,865	13,883
Long-term financing receivables (net of allowances of \$55 in 2012 and \$38 in 2011)	10,795	10,776
Prepaid pension assets	2,862	2,843
Deferred taxes	2,795	3,503
Goodwill	27,735	26,213
Intangible assets - net	3,657	3,392
Investments and sundry assets	4,730	4,895
Total Assets	\$ 113,832	\$ 116,433
LIABILITIES AND EQUITY		
Current Liabilities:		
Taxes	\$ 2,183	\$ 3,313
Short-term debt	7,669	8,463
Accounts payable	7,482	8,517
Compensation and benefits	4,656	5,099
Deferred income	12,311	12,197
Other accrued expenses and liabilities	4,602	4,535
Total Current Liabilities	38,903	42,123

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Long-term debt	24,766	22,857
Retirement and nonpension postretirement benefit obligations	16,544	18,374
Deferred income	3,889	3,847
Other liabilities	9,166	8,996
Total Liabilities	93,269	96,197
Equity:		
IBM Stockholders' Equity:		
Common stock	49,157	48,129
Retained earnings	109,928	104,857
Treasury stock at cost	(117,116)	(110,963)
Accumulated other comprehensive income/(loss)	(21,498)	(21,885)
Total IBM stockholders' equity	20,472	20,138
Noncontrolling interests	92	97
Total Equity	20,563	20,236
Total Liabilities and Equity	\$ 113,832	\$ 116,433

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Cash from Operating Activities per GAAP:	\$ 4,435	\$ 4,279	\$ 8,726	\$ 8,071
Less: the change in Global Financing (GF) Receivables	(507)	(33)	918	1,903
Net Cash from Operating Activities (Excluding GF Receivables)	4,942	4,313	7,809	6,168
Capital Expenditures, Net	(1,278)	(952)	(2,279)	(2,010)
Free Cash Flow (Excluding GF Receivables)	3,664	3,361	5,529	4,159
Acquisitions	(606)	(107)	(1,925)	(159)
Divestitures	13	4	13	4
Dividends	(978)	(905)	(1,848)	(1,700)
Share Repurchase	(2,988)	(3,976)	(6,002)	(8,021)
Non-GF Debt	933	(20)	1,590	1,007
Other (includes GF Receivables, and GF Debt)	(1,187)	162	1,907	4,822
Change in Cash, Cash Equivalents and Short-term Marketable Securities	\$ (1,148)	\$ (1,481)	\$ (736)	\$ 113

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SECOND-QUARTER 2012

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss)	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 9,995	\$ 291	\$ 10,286	\$ 1,757	17.1%
Y-T-Y change	-2.4%	-9.1%	-2.6%	23.7%	
Global Business Services	4,667	180	4,847	803	16.6%
Y-T-Y change	-4.1%	-12.2%	-4.4%	7.0%	
Software	6,171	776	6,946	2,493	35.9%
Y-T-Y change	0.0%	-2.0%	-0.2%	7.9%	
Systems and Technology	4,259	159	4,418	234	5.3%
Y-T-Y change	-9.0%	-27.3%	-9.8%	-40.4%	
Global Financing	517	515	1,032	528	51.1%
Y-T-Y change	-0.4%	-5.7%	-3.2%	6.4%	
TOTAL REPORTABLE SEGMENTS	\$ 25,608	\$ 1,921	\$ 27,529	\$ 5,814	21.1%
Y-T-Y change	-3.3%	-7.7%	-3.6%	8.3%	
Eliminations / Other	175	(1,921)	(1,746)	(653)	
TOTAL IBM CONSOLIDATED	\$ 25,783	\$ (0)	\$ 25,783	\$ 5,161	20.0%
Y-T-Y change	-3.3%		-3.3%	5.7%	

SECOND-QUARTER 2011

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss)	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 10,241	\$ 320	\$ 10,561	\$ 1,420	13.4%
Global Business Services	4,866	205	5,071	750	14.8%
Software	6,169	792	6,961	2,310	33.2%
Systems and Technology	4,681	218	4,899	393	8.0%
Global Financing	519	547	1,066	496	46.5%
TOTAL REPORTABLE SEGMENTS	\$ 26,476	\$ 2,082	\$ 28,558	\$ 5,370	18.8%

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Eliminations / Other	191	(2,082)	(1,891)	(485)	
TOTAL IBM CONSOLIDATED	\$ 26,666	\$ (0)	\$ 26,666	\$ 4,885	18.3%

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SIX-MONTHS 2012

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss)	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 20,031	\$ 584	\$ 20,615	\$ 3,237	15.7%
Y-T-Y change	-0.4%	-6.9%	-0.6%	21.8%	
Global Business Services	9,304	363	9,667	1,404	14.5%
Y-T-Y change	-2.8%	-10.5%	-3.1%	1.0%	
Software	11,770	1,615	13,386	4,438	33.2%
Y-T-Y change	2.5%	-0.4%	2.2%	9.7%	
Systems and Technology	8,008	309	8,317	130	1.6%
Y-T-Y change	-7.9%	-33.1%	-9.2%	-75.3%	
Global Financing	1,006	1,000	2,006	1,040	51.8%
Y-T-Y change	-2.8%	-4.2%	-3.5%	2.4%	
TOTAL REPORTABLE SEGMENTS	\$ 50,120	\$ 3,872	\$ 53,991	\$ 10,248	19.0%
Y-T-Y change	-1.5%	-6.9%	-1.9%	6.4%	
Eliminations / Other	336	(3,872)	(3,535)	(1,252)	
TOTAL IBM CONSOLIDATED	\$ 50,456	\$ (0)	\$ 50,456	\$ 8,997	17.8%
Y-T-Y change	-1.6%		-1.6%	3.4%	

SIX-MONTHS 2011

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss)	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 20,104	\$ 627	\$ 20,732	\$ 2,658	12.8%
Global Business Services	9,575	405	9,980	1,390	13.9%
Software	11,478	1,621	13,099	4,045	30.9%
Systems and Technology	8,700	462	9,162	525	5.7%
Global Financing	1,035	1,044	2,079	1,015	48.8%
TOTAL REPORTABLE SEGMENTS	\$ 50,892	\$ 4,160	\$ 55,052	\$ 9,634	17.5%

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Eliminations / Other	381	(4,160)	(3,779)	(932)		
TOTAL IBM CONSOLIDATED	\$ 51,273	\$ (0)	\$ 51,273	\$ 8,702	17.0%	

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	SECOND-QUARTER 2012			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 12,281	\$ 93	\$ 66	\$ 12,440
Gross Profit Margin	47.6%	0.4Pts	0.3Pts	48.2%
S,G&A	5,837	(87)	(33)	5,717
R,D&E	1,587	0	5	1,592
Other (Income) & Expense	(132)	(1)	0	(133)
Total Expense & Other (Income)	7,120	(88)	(28)	7,004
Pre-Tax Income	5,161	181	94	5,436
Pre-Tax Income Margin	20.0%	0.7Pts	0.4Pts	21.1%
Provision for Income Taxes***	1,280	49	30	1,359
Effective Tax Rate	24.8%	0.1Pts	0.1Pts	25.0%
Net Income	3,881	132	64	4,077
Net Income Margin	15.1%	0.5Pts	0.2Pts	15.8%
Diluted Earnings Per Share	\$ 3.34	\$ 0.11	\$ 0.06	\$ 3.51

	SECOND-QUARTER 2011			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 12,385	\$ 87	\$ 6	\$ 12,477
Gross Profit Margin	46.4%	0.3Pts	0.0pts	46.8%
S,G&A	6,030	(76)	(5)	5,950
R,D&E	1,569	0	24	1,593
Other (Income) & Expense	97	(1)	0	96
Total Expense & Other (Income)	7,500	(77)	18	7,441
Pre-Tax Income	4,885	163	(12)	5,036

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Pre-Tax Income Margin	18.3%	0.6Pts	-0.0Pts	18.9%
Provision for Income Taxes***	1,221	38	0	1,259
Effective Tax Rate	25.0%	-0.1Pts	0.1Pts	25.0%
Net Income	3,664	126	(13)	3,777
Net Income Margin	13.7%	0.5Pts	-0.0Pts	14.2%
Diluted Earnings Per Share	\$ 3.00	\$ 0.10	\$ (0.01)	\$ 3.09

* Includes amortization of acquired intangible assets and other acquisition-related charges.

** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

*** Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	SIX-MONTHS 2012			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 23,400	\$ 181	\$ 137	\$ 23,718
Gross Profit Margin	46.4%	0.4Pts	0.3Pts	47.0%
S,G&A	11,723	(171)	(69)	11,483
R,D&E	3,188	0	10	3,197
Other (Income) & Expense	(190)	(2)	0	(192)
Total Expense & Other (Income)	14,403	(172)	(60)	14,171
Pre-Tax Income	8,997	354	197	9,547
Pre-Tax Income Margin	17.8%	0.7Pts	0.4Pts	18.9%
Provision for Income Taxes***	2,049	96	60	2,205
Effective Tax Rate	22.8%	0.2Pts	0.2Pts	23.1%
Net Income	6,948	258	137	7,342
Net Income Margin	13.8%	0.5Pts	0.3Pts	14.6%
Diluted Earnings Per Share	\$ 5.95	\$ 0.22	\$ 0.12	\$ 6.29

	SIX-MONTHS 2011			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 23,243	\$ 172	\$ 19	\$ 23,434
Gross Profit Margin	45.3%	0.3Pts	0.0Pts	45.7%
S,G&A	11,856	(152)	(15)	11,689
R,D&E	3,156	0	43	3,199
Other (Income) & Expense	(105)	(5)	0	(110)
Total Expense & Other (Income)	14,541	(157)	28	14,412
Pre-Tax Income	8,702	329	(8)	9,022

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Pre-Tax Income Margin	17.0%	0.6Pts	-0.0Pts	17.6%
Provision for Income Taxes***	2,175	86	(5)	2,256
Effective Tax Rate	25.0%	0.0Pts	0.0Pts	25.0%
Net Income	6,526	243	(3)	6,767
Net Income Margin	12.7%	0.5Pts	-0.0Pts	13.2%
Diluted Earnings Per Share	\$ 5.30	\$ 0.20	\$ (0.00)	\$ 5.50

* Includes amortization of acquired intangible assets and other acquisition-related charges.

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*** Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

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